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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item 52 Item#4469

ENERGY DIVISION **RESOLUTION E-3926**
April 21, 2005

R E S O L U T I O N

Resolution E-3926. San Diego Gas and Electric Company (SDG&E) requests Commission approval of Demand Reduction Agreement for a Distributed Resource Project between SDG&E and Celerity Energy Partners San Diego LLC (Celerity), in compliance with Decision (D.) 04-06-011.

By Advice Letter 1673-E Filed on March 3, 2005.

SUMMARY

This Resolution approves SDG&E's demand reduction contract with Celerity. In addition, the Master Interconnection Agreement under which Celerity's interconnection facilities to SDG&E's grid will be governed is also approved. Finally, SDG&E customer agreement for certain customers participating in Celerity's demand reduction program is approved.

BACKGROUND

Celerity's demand reduction proposal allows SDG&E to drop load on short notice, improving the reliability of the grid, while the customers' operations is not disrupted, using cleaner burning backup units that benefit the environment

Celerity's demand reduction proposal utilizes a dispatchable network of a variety of demand reduction resources, including load shedding or load transfer arrangements and customer-owned generation. One important feature of the Celerity proposal is its treatment of existing customer-owned diesel backup generation units, usually located at commercial and industrial facilities. Celerity converts these units to duel-fueled units that primarily burn natural gas, when necessary installs emission reduction equipment, and installs software and communications equipment that allows the utility to dispatch all or some of these resources within 10 minutes' notice. In summary, Celerity takes existing backup generation units, converts them to significant demand reduction resources, allowing the customer to drop load from the utility grid while continuing their business and operations.

Celerity will also maintain the converted units, so when the customer does utilize them, they are running cleaner and more efficiently than the diesel units did. The end result is that when these customers are asked to reduce their use of power, they do so, reducing demand on the grid, yet they can now continue to operate their business using less polluting equipment.

D. 04-06-011 finds that Celerity's proposal merit consideration as a demand response project

In D.04-06-011, the Commission approved five proposals that SDG&E presented to meet its short-term and long-term grid reliability needs. These proposals were the result of an open and competitive Request for Proposal (RFP) process. The RFP process also selected Celerity for further consideration. However, after SDG&E presented Celerity's proposal to the Procurement Review Group (PRG), and certain PRG members expressed their concern that Celerity's proposal did not meet the definition of Demand Response, SDG&E withdrew from negotiations with Celerity and no longer recommended their proposal as a demand response product.

In its Proposed Decision on this matter, the Commission found that Celerity's proposal did not comport with the "legalistic" interpretation of a demand response project or because as a supply-side proposal it was uneconomic. Upon further review of the records and briefs, and the comments filed by Celerity, the Commission found that Celerity's proposal did merit consideration as a demand response project. The Commission noted that Celerity made a compelling case that except for the super technical interpretation of the Vision Statement[1] by some member of the PRG, SDG&E and Celerity would have continued through the contract negotiation stage as a conforming bidder. As such, Celerity requested, and the Commission agreed, that Celerity's proposal was consistent with the spirit and intent of the Vision Statement.

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1. [1] The Demand Response Vision Statement (Vision Statement) attached to D.03-06-032,

D.04-06-011 authorized SDG&E to complete contract negotiations with Celerity

To meet SDG&E's short-term and long-term grid reliability needs, D. 04-06-011 authorized SDG&E to complete contract negotiations with Celerity on the terms that the parties agreed to in September 2003.

Ordering Paragraph 3 of D. 04-06-011 authorized SDG&E to execute mutually acceptable contract with Celerity

Ordering Paragraph 3 authorized SDG&E to execute a contract with Celerity if mutually acceptable terms were reached. Specifically, OP 3 of D. 04-06-011 states "If SDG&E and Celerity reach a mutually acceptable contract for a demand reduction proposal, SDG&E is authorized to execute the contract and recover the costs along the same mechanism established for the Comverge contract."

As authorized, after reaching acceptable terms, SDG&E executed a Demand Reduction Agreement for a Distributed Resource Project between SDG&E and Celerity (the Agreement) with Celerity on February 21, 2005. The Agreement is the proposed contract filed in Advice Letter 1673-E.

Ordering Paragraph 3 authorized SDG&E to recover the costs of the Celerity contract along the same mechanism established for the Comverge contract

OP 3 further authorizes SDG&E to recover the costs of the Celerity contract along the same mechanism established for the Comverge contract. That is, SDG&E is authorized to recover the costs of the Celerity contract from the Interruptible Load and Rotating Outage Programs Memorandum Account (ILROPMA). O&M and A&G charges and any incentive payments paid to participants will be collected from all distribution customers through the distribution rate changes effective January 1 of the following year.

The Proposed Contract has a 10-Year term with Maximum Contract Capacity of 25 MW, although SDG&E may expand the capacity by an additional 25 MWs

SDG&E and Celerity reached mutually acceptable terms for a 10-year contract duration, with maximum Contract Capacity of 25 MW. The terms of the contract require that Celerity be paid monthly based on actual available capacity as measured by generation output metering for the generation component, and utilizes a 10-day baseline calculation to measure load curtailment for the non-generation component. In the case of backup generation resources, the contract provides for either stand-alone or parallel operation. *SDG&E may expand the capacity of the contract by an additional 25 MWs.*

Please see Confidential Appendix A for total costs of Agreement. This information was filed by SDG&E as protected material under Section 583 of the Public Utilities Code.

NOTICE

Notice of AL 1673-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

Advice Letter AL 1673-E was not protested.

DISCUSSION

Celerity's demand reduction program enables customers to drop load from SDG&E's grid while continuing their business and operations

The Celerity demand reduction program consists of two components; 1) it takes existing backup generation units and converts them to significant demand reduction resources, allowing a customer to drop load from SDG&E's grid while continuing their business and operations, and 2) it provides for demand response where the customer is able to drop load without using any backup generation.

The conversion of the backup generation units was identified by D. 04-06-011 as a key elements of Celerity's proposal. As described in the Decision, Celerity would: (1) convert the existing diesel units to duel-fueled units that primarily burn natural gas, (2) install emission control equipment on the units, and (3) install software and communications equipment that allows SDG&E to dispatch all or some of these resources within short notice. The Decision noted that the end result was that when "…customers are asked to reduce their use of power, they do so, reducing demand on the grid, yet they can now continue to operate their business using less polluting equipment."

The executed Agreement did not specifically address the conversion to duel-fuel use or the installation of emission control equipment

As noted, the key features of Celerity's proposal was the conversion to duel-fuel, installation of emission control equipment and short notice dispatchability by SDG&E.

The Agreement presented for this Commission's approval included the short notice dispatch requirement. The conversion to duel-fuel and installation of emission control equipment was not specifically addressed in the Agreement. The Agreement simply requires Celerity to pursue the appropriate permits in order to fulfill its part of the Agreement.

In response to the concerns raised by Energy Division that Celerity may attempt to fulfill its side of the contract without converting participating generators to duel-fuel capability or installing emission control equipment, Celerity clarified[2] that it will not include (in fact, cannot) any customer-owned diesel-fired standby generators as part of its aggregated capacity to SDG&E under the Agreement without each participating generator first being re-permitted through the San Diego Air Pollution Control District to operate for purposes of the project.

Celerity further clarified that each proposed diesel-fired generator will be upgraded to meet new Air Toxic Control Measures (ATCM) requirements, including the CARB-approved PM filter and catalyst as required.

Celerity also stated that in no event will Celerity incorporate the use of diesel-fired standby generators that have not been (i) re-permitted to operate for the projects need, and (ii) has not been retrofitted to with emissions reduction equipment to comply with new ATCM regulation.

[2] Letter to Energy Division dated April 4, 2005.

Energy Division concludes that the contract terms as understood and highlighted by the Commission in D.04-06-011 will be executed by Celerity via the Agreement as proposed in Advice Letter 1673-E.

SDG&E Requests Approval of Two Additional Contracts To Facilitate the Agreement Between SDG&E and Celerity. One of the New Contracts Will Result in a Revision to SDG&E Electric Tariffs.

In the Advice Letter, SDG&E is requesting Commission approval of two contracts related to the Agreement. The first contract is a Master Interconnection Agreement between SDG&E and Celerity under which Celerity's interconnection facilities to SDG&E's grid will be governed. The second contract is a SDG&E customer agreement for certain customers participating in Celerity's demand reduction program. This Form Contract is entitled "Electric Service Contract For Billing Where A Customer Has A Generator(s) Committed to Be Dispatched When Called Upon By SDG&E Pursuant To A Contract With Celerity" (Form 142-05214).

This Form Contract revises SDG&E electric tariffs and provides that a customer that is making their generator available for SDG&E to dispatch through Celerity will (1) not be required to take, or pay for, standby service and (2) will pay retail rates for the output of their generator when SDG&E is paying for the fuel used by, and capacity output of, the generator under terms of the contract with Celerity.

The contracts will facilitate the management of the program by SDG&E. The contracts defines the scopes of the parties interests and governs their rights and obligations. Energy Division finds that both the Master Interconnection Agreement and the Form Contract are reasonable and recommends that they be approved.

Ordering Paragraph 3 of D. 04-06-011 established cost recovery mechanism

Ordering Paragraph 3 of D. 04-06-011 authorizes SDG&E to recover the costs of the Celerity contract along the same mechanism established for the Comverge contract. That is, SDG&E is authorized to recover the costs of the Celerity contract from the Interruptible Load and Rotating Outage Programs Memorandum Account (ILROPMA). O&M and A&G charges and any incentive payments paid to participants will be collected from all distribution customers through the distribution rate changes effective January 1 of the following year.

Energy Division concludes that SDG&E has complied with the Ordering Paragraph.

Monitoring and Evaluation

SDG&E currently files monthly demand response reports to Energy Division that provide participation, costs and operation of all SDG&E's demand response programs in place. Energy Division recommends that SDG&E include in its monthly reports the same information (participation, costs, operation) regarding its Agreement with Celerity. Energy Division also recommends that the Working Group 2 Measurement and Evaluation oversight committee, which is responsible for establishing evaluation protocols of all large customer demand response programs, consider the Celerity program as a program to be evaluated in 2005 or possibly future years.

Expansion of the Agreement's Capacity Beyond 25 MWs requires Commission approval

The Agreement between Celerity and SDG&E provides SDG&E an option to expand the capacity of the contract an additional 25 MWs under the same terms and conditions. Expansion of the contract's capacity by an additional 25 MWs would essentially double the cost of the contract. Energy Division recommends that the SDG&E seek Commission approval via an advice letter filing for any expansion of the contract's capacity beyond the current baseline of 25 MWs.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

All parties in the proceeding have stipulated to reduce the 30-day waiting period required by PU Code section 31l(g)(1) . Accordingly, this matter will be placed on the April 21, 2005 Commission agenda. Comments shall be filed no later than April 13, 2005.

FINDINGS

1. Celerity presented an innovative demand reduction proposal that will take existing backup generation units, convert them to significant demand reduction resources, allowing the customer to drop load from the utility grid while continuing their business and operations.
2. Commission Decision 04-06-011 found that Celerity's proposal was consistent with the spirit and intent of the Vision Statement and merited consideration as a demand response project.
3. Commission Decision 04-06-011 authorized SDG&E to complete contract negotiations with Celerity on the terms that the parties agreed to in September 2003.
4. Ordering Paragraph 3 of the Decision authorized SDG&E to execute a contract with Celerity if the parties reached a mutually satisfactory contract for a demand reduction proposal.
5. SDG&E and Celerity executed a mutually acceptable contract on February 21, 2005.
6. The contract between SDG&E and Celerity did not specifically address conversion of backup generators to duel-fuel use or the installation of emission control equipment.
7. Celerity clarified in a letter to the Energy Division via SDG&E that in no event will Celerity incorporate the use of diesel-fired standby generators that have not been (i) re-permitted to operate for the Project's needs, and (ii) has not been retrofitted to with emissions reduction equipment to comply with new ATCM regulations.
8. Energy Division concludes that the contract terms as understood and highlighted by the Commission in D.04-06-011 will be executed by Celerity via the Agreement.
9. Two additional contracts are required to facilitate management of the contract with Celerity.
10. The Master Interconnection Agreement between SDG&E and Celerity will govern Celerity's interconnection facilities to SDG&E's grid.
11. A SDG&E customer agreement "Electric Service Contract For billing Where A Customer Has A Generator(s) Committed To Be Dispatched When Called Upon By SDG&E Pursuant To A Contract With Celerity" provides that a

customer that is making their generator available for SDG&E to dispatch through Celerity will (1) not be required to take, or pay for, standby service and (2) will pay retail rates for the output of their generator when SDG&E is paying for the fuel used by, and capacity output of, the generator under terms of the contract with Celerity.

12. Ordering Paragraph 3 of D. 04-06-011 authorizes SDG&E to recover the costs along the same mechanism established for the Comverge contract.
13. The cost recovery mechanism in the Comverge contract authorized SDG&E to recover the costs of the contract from the Interruptible Load and Rotating Outage Programs Memorandum Account (ILROPMA). O&M and A&G charges and any incentive payments paid to participants will be collected from all distribution customers through the distribution rate changes effective January 1 of the following year.
14. SDG&E should include in its monthly demand response reports program data (signups, costs, operations) resulting from its Agreement with Celerity.
15. SDG&E should seek Commission approval via an advice letter filing for any expansion of the Agreement's capacity beyond the current baseline of 25 MWs.

THEREFORE IT IS ORDERED THAT:

1. The request of the SDG&E to approve its contract with Celerity as requested in Advice Letter AL 1673-E is approved.
2. SDG&E request for approval of the Master Interconnection Agreement between SDG&E and Celerity is approved.
3. SDG&E request for approval of its customer agreement "Electric Service Contract For billing Where A Customer Has A Generator(s) Committed To Be Dispatched When Called Upon By SDG&E Pursuant To A Contract With Celerity" is approved.
4. SDG&E shall include in its monthly demand response reports program data from its Agreement with Celerity.
5. SDG&E shall file an advice letter seeking Commission approval for any expansion of the Agreement's capacity beyond the current baseline of 25 MWs.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 21, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

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CONFIDENTIAL APPENDIX A

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